

Should the Disadvantaged Be Spared from the Budget Axe?

Stuart M. Butler, Ph.D.

Abstract: *If America fails to deal with its long-term fiscal problem in sensible ways that spur economic growth and strengthen the economy, the poor will ultimately take the biggest hit. Thus, any conversation about spending, program reform, and tax policy has to be seen in this context: not as an accounting measure, but as a dynamic economic issue that will have consequences for the jobs and income of the poor as well as for the effectiveness of programs. Our focus should therefore be on reforming or ending programs that have failed, both for the poor and for other Americans.*

At a simple level, the obvious answer to the question is yes, programs for the poor should be protected from budget cutbacks. After all, the poor are the most vulnerable in our society. As some have said, "They have no skin to contribute to the game." And consider their financial insecurity: The latest work of Jacob Hacker looks at the financial shocks and devastating results the poor have encountered in recent years.¹ We would clearly not want to withdraw effective help from the poor and cut away at needed assistance.¹

So in this simple sense, few would support the idea that the poor should endure the same budget axe that everybody else must endure in these difficult times. But that said, let's consider a few things.

THE POOR ARE THE FIRST HIT BY A DEBT CRISIS

If we fail to deal with the long-term fiscal problem, and if we do go the way of Ireland or Greece or, most recently, Britain, it will be the poor and the more vulnerable who will be first in line to endure whatever budget hit is meted out to deal with a crisis. So it is important to recognize that if we don't fully address the long-term fiscal problem in sensible ways that spur economic growth and strengthen the economy, it is the poor who will be the ones who ultimately take the biggest hit.

Thus, any conversation about revenues and tax policy has to be seen in this context: not as an account-

¹ See Jacob S. Hacker, Philipp Rehm, and Mark Schlessinger, *Standing on Shaky Ground: Americans' Experiences with Economic Insecurity*, Economic Security Project, 2010, at <http://newamerica.net/sites/newamerica.net/files/events/ESIreport.pdf> (March 4, 2011). Stuart Butler commented on this study at a New America Foundation event on December 14, 2010. The video is available at http://newamerica.net/events/2010/standing_on_shaky_ground (March 4, 2011).

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ing measure, but as a dynamic economic issue that will have consequences for the jobs and income of the poor.

REDESIGN RATHER THAN JUST CHOP

As the recent government and private debt commissions have correctly argued, it isn't a question of saying whose programs should get chopped by the budget axe and whose should get fenced off from the chopping. It's a question instead of fundamentally reforming and restructuring the way we do things so that we can deal with a long-term situation in ways that do protect the poor in an effective and efficient manner, in line with our values and our financial capacity.

That requires us to look at redesigning programs—and not just for the poor—as the critical step in how we deal with the fiscal problem.

Rethink upper-income entitlements. We must focus first on redesigning the budget of programs for those at the upper income levels and for retirees rather than younger people and the poor. So if our aim is to achieve retirement security for Americans, but within our ability to afford that without burdening future generations with debt, we need to look quite differently at social insurance programs.

The difference between me and my friends who call themselves progressive is that they're in favor of Warren Buffet receiving regular Social Security checks and subsidized Medicare and I'm not. Self-styled progressives have got to recognize that as we dig out of the long-term deficit problem, we cannot and should not provide defined social insurance benefits to people who don't need them and finance those unaffordable benefits by cutting deeper into basic services to the poor and middle class, and also by piling debt onto future generations.

So we've got to rethink what these social insurance programs are for. I believe these programs should have a very different design, with a greater emphasis on true insurance against hard times and

much less emphasis on providing benefits for all.²

Ask whether programs boost economic mobility. We've also got to think not just about issues involved in addressing the immediate needs of the poor, but also about making sure we have a society where the poor can move up the economic ladder. I've worked with Ron Haskins and Isabel Sawhill of the Brookings Institution, and others at institutes on the left and the right, on a project of the Pew Foundation. That project is about economic mobility and how to foster it. We've looked at what programs and approaches are effective in enabling people to escape poverty and to move up the economic ladder and which are not.

One of the most important publications for that project was one undertaken by the Urban Institute's Gene Steuerle, another member of the Pew project. Steuerle and his colleagues found that if you actually want to look for programs that purport to increase economic mobility, there are lots of such programs in the federal government. But there is a problem with them. It is that many of the programs that have been examined don't succeed in actually achieving economic mobility, especially for the needy.³

Just think of the mortgage interest deduction, which is said to help people to become homeowners and move up the economic ladder. The problem is that there's little evidence that the deduction does much to widen homeownership. There is no mortgage

² For an elaboration of this argument, see Stuart M. Butler, "The Rich Don't Need Social Insurance," *The Fiscal Times*, posted January 14, 2011, at <http://www.thefiscaltimes.com/Blogs/Capital-Exchange/2011/01/14/Capital-Exchange-The-Rich-Dont-Need-Social-Insurance.aspx> (March 4, 2011). See also Stuart M. Butler and Maya MacGuineas, *Rethinking Social Insurance*, The Heritage Foundation and New America Foundation Fiscal Policy Program, February 19, 2008, at <http://www.heritage.org/Research/Reports/2008/02/Rethinking-Social-Insurance> (March 4, 2011).

³ See Adam Carasso, Gillian Reynolds, and C. Eugene Steuerle, *How Much Does the Federal Government Spend to Promote Economic Mobility and for Whom?* Pew Charitable Trusts Economic Mobility Project, 2008, at http://www.economicmobility.org/assets/pdfs/EMP_Mobility_Budget.pdf (March 4, 2011).

deduction in Canada and many other countries, and yet homeownership rates are comparable with ours. Similarly, a recent government study of Head Start suggests that the program actually has little long-term impact on children's ability to succeed in school.⁴

FIND OUT WHETHER PROGRAMS ACTUALLY WORK

Steuerle has also pointed out that, in far too many cases, we don't even know if programs are effective or not because they are not systematically evaluated. So we have many expensive federal programs where we don't even know if they achieve their stated objective of helping the poor escape poverty and move up the economic ladder.

If we are to be serious about trying to deal with the budget problem and use whatever resources we do spend as efficiently as possible, one of the first necessary steps we need to take is to subject all programs to rigorous evaluation to see what works and what doesn't work.

And let's get serious about structural reforms in spending areas where any reasonable person knows we have programs that have let down the poor in outrageous ways.

The disaster of K-12. One of those areas is education. My elder daughter has just started drawing a paycheck for the first time. She is a sixth-grade teacher in an inner-city Philadelphia public school, but she is in a disaster zone. She is desperately trying to teach kids to enable them to escape poverty through education, but she is trying to do that in a dysfunctional institution in a dysfunctional school district within a dysfunctional system of education.

We are moving toward an educational caste system in which some children are able to get a good basic

⁴ U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, *Head Start Impact Study Final Report*, January 2010, at http://www.acf.hhs.gov/programs/opre/hs/impact_study/reports/impact_study/hs_impact_study_final.pdf (March 4, 2011).

education, a good secondary education, and then move on to university and do well, but there are other children for whom that is impossible. They will never, ever be able to do that because they have been utterly failed by the basic education system. So even if we give them Pell Grants to go to college, they will likely drop out because they have not been provided with the underlying skills, the necessary human capital, or the "social capital" needed to be able to take advantage of those opportunities.

We have an opportunity in this long-term budget debate to discuss how programs should be structured to address the deficit and to engage, finally, in a discussion of what has to be done about our education system.

Welfare: Progress, but more needed. Look also at our welfare system. We made some important progress in 1996 in redesigning the system so that its incentives encouraged independence and not dependence. Ron Haskins of Brookings and Robert Rector of Heritage, among others, were heavily involved in creating a welfare system that at last made some sense and began to help people to escape poverty more effectively at less cost. We've got to continue and expand our reforms of the welfare system. There is still a great deal to be done.

So if we're going to deal prudently with the long-term budget problem, we have got to do it by rethinking how we spend money in programs and at institutions that are fundamental to the lives of the poor.

THE NEED TO FOSTER SAVINGS

Further, whether or not we make changes in any government programs that affect low-income families, we need to enhance the ability of families to build savings. And we have to look at tax reform and other strategies to empower the poor to be less vulnerable to economic shocks and to move up from the economic floor.

We know that a tax-only incentive strategy is not effective for people who don't pay tax. That's why other approaches, including automatic enrollment

mechanisms that President Obama has supported, are important.

BUDGET PRESSURE CAN FORCE NEEDED REFORM

I agree at one level with [fellow panelist] Bob Greenstein: If you just enforce spending caps in health care and other areas and don't deal with the way the system operates, this is not the way to do prudent budget reform. But the reverse is also true. If you focus only on the details you want in an affordable health system, including Medicaid, and don't start thinking about the pressure needed through a budget or through a cap to force people to make real decisions within the system, the details just won't happen.

The history of health reform is lots of talk about delivery system changes, but the trajectory of costs keeps going up because until you ratchet down total public spending and subsidies—in combination with a serious conversation about the details of restructuring—you won't achieve reform.

CONCLUSION

Talk of shielding things from scrutiny in these tough budget times is what's wrong with this discussion. It shouldn't be an issue of shielding items from the budget discussion. We should instead be asking of all programs, not just those for the poor, "What is the objective that we're trying to achieve, and is the program doing it effectively?"

If we are comfortable with the objective and the government's role, and if it's really successful, then fine. But if it's not, then don't shield it. Redesign it or end it.

—*Stuart M. Butler, Ph.D.*, is Director of the Center for Policy Innovation at The Heritage Foundation. This lecture is adapted from remarks delivered at a December 2010 Brookings Institution seminar, "Should the Disadvantaged Be Spared from the Budget Axe? A Look at the President's Commission Findings and How They Could Impact the Poor."⁵

⁵ For a full transcript, audio, and video of this event, see http://www.brookings.edu/events/2010/1216_budget.aspx (March 4, 2011).